



Annual Report

2006/2007

Financial Institutions Commission



BRITISH
COLUMBIA
The Best Place on Earth

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Financial Institutions Commission

SUPERINTENDENT OF FINANCIAL INSTITUTIONS

SUPERINTENDENT OF PENSIONS

SUPERINTENDENT OF REAL ESTATE

REGISTRAR OF MORTGAGE BROKERS

CREDIT UNION DEPOSIT INSURANCE CORPORATION OF BRITISH COLUMBIA



The Best Place on Earth



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About the Report

Introduction

The Financial Institutions Commission's (FICOM) 2006/07 annual report is published for the benefit of all British Columbians. This document covers our performance during the 2006/07 fiscal year, from April 1, 2006 to March 31, 2007. It contains detailed information about the regulation of financial services in British Columbia (BC) and our effectiveness as a financial services regulator.

This year's report follows guidelines for service plans and annual reports in the *Budget Transparency and Accountability Act*. Service plans must present organizational goals and performance measures, and annual reports describe the attainment of those goals.

Because it was published at the same time as the BC government's budget in February, the service plan for this report appeared before the corresponding fiscal year. Therefore, the performance targets referenced in our 2006/07 annual report are those set out in our February 21, 2006 service plan.

Changes to Our Look

We have made some changes to this year's report, because we hope to make it more reader friendly. You will see more photographs of our staff than in previous years, as well as comments from some of them. And rather than pages of text followed by pages of tables, we have reduced the size of charts and graphs, and interspersed them with text.



2006/07 a Good Year

Much has been accomplished in FICOM's offices over the past year. The Commission regulates sectors in busy and fast-growing fields—BC, for example, has the highest usage of mortgage brokers in Canada. But thanks to the dedication of our hard-working staff, we are proud to say that we have continued to meet our desired standards of excellence.

As well, our now-completed shift from a compliance-based to a risk-based process has increased our capacity to avert regulatory failure.

At FICOM, like most other sectors within BC, we felt the impact of the labour shortage this year, and hiring became a particular challenge. But our dedicated staff met that challenge with quick thinking and innovative action.

Our Superintendent and Chief Executive Officer (CEO), Alan Clark, said: "We've got a good story to tell. I think we should be telling it.... Our costs are below 1991 costs in some areas."

It has been a good year. This report explains why.

"We've got a good story to tell. I think we should be telling it.... Our costs are below 1991 costs in some areas."

– Alan Clark, Superintendent and Chief Executive Officer (CEO)



Letter from the Commission Chair



J. Stewart Cunningham
Chair, Financial Institutions
Commission

JULY 5, 2007

The past year has been a busy one for FICOM. Over the year the Commissioners have changed and so I would like to personally welcome two new Commissioners, Mark Daniels and John Hopkins, and thank our retiring Commissioner and Vice-Chair, John Dawson, for his service to FICOM. I would also like to acknowledge the dedication of our three continuing Commissioners, Vickie McDonnell, Janet Pau, and Joanne Cain. Ms. Cain serves on the Commission as the designate for the Deputy Minister of Finance.

Market conditions in BC's financial institutions sector remain very positive for credit unions, trust companies, and insurance companies.

The total assets of the credit union system rose to \$39.3 billion as of March 31, 2007.

Credit unions continue to respond to the needs of their members, including members' demands for mortgages and other personal loans. Credit unions also play a vital role in promoting business growth in BC through commercial loans.

Although the number of institutions and business assets remained stable during the fiscal year 2006/07, there was increased interest in the BC-based trust sector, particularly in the area of trust services in wealth management and estate administration. At the end of the fiscal year, there were 7 BC-based companies and 46 extra-provincial companies registered to conduct trust business in BC.

The insurance industry in BC, the third-largest insurance market in Canada, remains strong. With 18 companies and growing, BC remains the leader in the number of captive insurance companies in the country. The province is also home to seven specialist market insurance companies who operate on a sound financial footing. Presently, more than 230 extra-provincial insurance companies operate here, and, together with the federal Office of the Superintendent of Financial Institutions, FICOM has moved from being a compliance regulator—which often involved little

more than ensuring financial institutions complied with regulations—to being a prudential regulator of insurance companies. As a prudential regulator, FICOM uses modern risk management methods to help ensure that financial institutions remain solvent and that the public retains confidence in the BC insurance sector.

The Credit Union Deposit Insurance Corporation (CUDIC) has taken several major initiatives over the past year. To assure the quality and integrity of the fund, CUDIC is engaging in several important projects including preparing contingency planning for deposit insurance payouts; studying the application of a variable insurance assessment based on a credit union's risk profile; hiring a consultant to assist with performance analysis and investment structure under new financial instrument reporting standards; and engaging in size-of-fund analysis by taking into consideration the current level of insured deposits.

CUDIC has also enhanced its public profile through improvements to its website and brochure. I invite you to view CUDIC online at www.fic.gov.bc.ca/responsibilities/cudic/overview.htm.

Through the efforts of Commission staff and the dedication of Commissioners, FICOM looks forward to building on our accomplishments in the year ahead. It gives me great pleasure to thank each Commissioner and each member of staff for their interest and dedication. Without their commitment, the Commission would not have been able to keep abreast of the large amount of work that is necessary to ensure that the public is properly protected and maintains its confidence in the financial institutions regulated by the Commission.

A handwritten signature in black ink, appearing to read "J. S. Cunningham".

J. Stewart Cunningham
Chair, Financial Institutions Commission

Letter from the Superintendent and CEO

JULY 5, 2007

On behalf of our employees, I am pleased to present FICOM's annual report for the fiscal year 2006/07. This year's report is the sixteenth this organization has presented since its inception in 1989.

Our service plan sets out what we hope to accomplish in the coming year, and our annual report measures how we achieved the goals we set. As I have mentioned in previous years, FICOM must be accountable to its stakeholders and transparent in its operations. This report is an important step in achieving that objective.

This organization administers a number of statutes that regulate financial services (with the exception of the securities industry and banks) that impact almost every household in British Columbia.

The financial services industry continues to grow and change at a rapid pace—it has been challenging for FICOM to keep up. Some highlights of this growth during the past fiscal year include:

- The booming real estate market, which has resulted in a record number of disclosure statement filings;
- A record number of individuals and companies registered under the *Mortgage Brokers Act*;
- An ever increasing number of captive insurance companies;
- Continued growth and consolidation in the credit union industry;
- Increased interest in BC-based trust companies; and
- The increased challenges of regulating the pension industry.

In addition to having to keep pace with industry changes, just as in previous years, we had to take regulatory action in all areas of the industries we regulate. We feel it is important to take swift, decisive action when individuals or companies conduct themselves in a manner that will impact the public confidence in the industries we regulate.

In addition to our daily regulatory roles we also:

- Developed an inter-provincial mortgage broker course to facilitate the movement of mortgage professionals across provincial borders;
- Commenced examinations of mortgage broker offices;
- Worked with the Real Estate Council of BC to ensure strata property managers were licensed;
- Prepared for the implementation of the Trade Investment and Labour Mobility Agreement with Alberta;
- Participated with our fellow regulators, such as the Canadian Council of Insurance Regulators, to reduce regulatory burden and co-ordinate our efforts; and
- Participated in the Canadian Consumer Protection for Financial Failures website, (www.financeprotection.ca).

I would like to acknowledge and thank the industry organizations we work closely with for their assistance and co-operation during the year, especially:

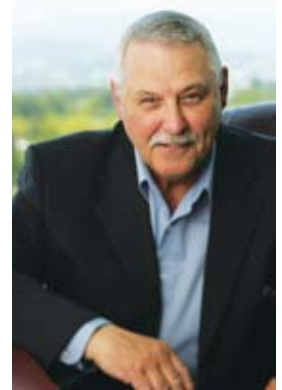
- The Real Estate Council of BC;
- The Insurance Council of BC;
- The Mortgage Brokers Association of BC;
- Central Credit Union of BC; and
- Stabilization Central Credit Union.

Going forward, our challenges will continue, but I am confident this organization is up to each and every challenge we face. In closing, I wish to thank our staff for meeting our challenges during the last fiscal year, as well as for their hard work, dedication, sense of responsibility, and support. Their valued contributions are our success.

I would like to encourage everyone to review our annual report, service plan, and website (www.fic.gov.bc.ca) for more information about FICOM and our activities.



W. Alan Clark
CEO, Financial Institutions Commission



W. Alan Clark
CEO, Financial Institutions
Commission



Who We Are

FICOM Commissioners*

| | |
|---------------|---|
| Chair | J. Stewart Cunningham |
| Commissioners | Tamara Vrooman (<i>ex officio</i>) Mark R. Daniels John Dawson William G. Hopkins Vickie McDonnell Janet Pau |

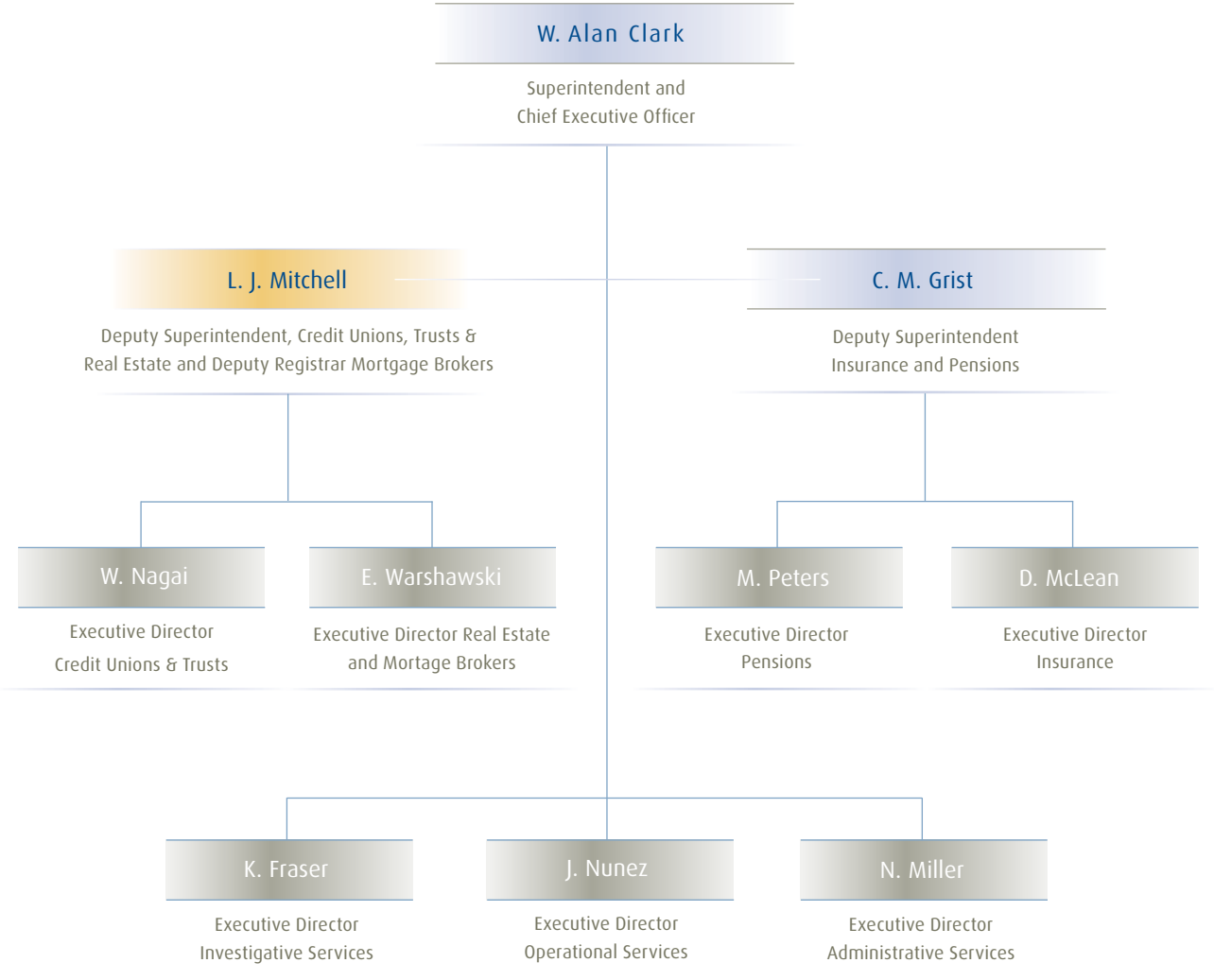
*All positions effective as at March 31, 2007.

FICOM Executive Management*

| | |
|---|----------------------|
| Superintendent and Chief Executive Officer | W. Alan Clark |
| Deputy Superintendent, Credit Unions, Trusts, and Real Estate, and Deputy Registrar, Mortgage Brokers | L. Jay Mitchell |
| Deputy Superintendent, Insurance and Pensions | C. Michael Grist |
| Executive Director, Operational Services | John I. Nunez |
| Executive Director, Credit Unions and Trusts | Wayne Nagai |
| Executive Director, Real Estate and Mortgage Brokers | Elizabeth Warshawski |
| Executive Director, Pensions | Michael Peters |
| Executive Director, Insurance | Doug Mclean |
| Executive Director, Investigative Services | Ken Fraser |
| Executive Director, Administrative Services | Nick Miller |

*All positions effective as at March 31, 2007.

FICOM at a Glance



Business Overview

Vision

FICOM's vision is to be the most progressive and cost-effective regulator in Canada of financial services, pensions, and real estate services: protecting the public interest, keeping pace with industry change and leading effective regulatory reform.

Mission

Our mission is to maintain confidence in BC's financial services sector by effective regulation.

Values

Four distinct values govern our actions at FICOM:

EFFECTIVENESS. We focus on obtaining results, even when they are difficult to measure, rather than on activities. We anticipate problems before they arise and address them in a timely manner.

INTEGRITY. We value honesty, co-operation, transparency, reliability, fairness, and respect within the workplace and demonstrate these qualities in the exercise of our regulatory function.

PROFESSIONALISM. We take pride in the quality of our work and continually strive to improve ourselves by seeking knowledge, revising our methods and providing innovative solutions.

ACCOUNTABILITY. We are accountable for the decisions we make.

You will find the names and addresses of all financial institutions authorized by the Government of British Columbia to conduct business in the province at www.fic.gov.bc.ca.





FICOM's Structure

As an agency of the BC government, FICOM is responsible for administering 10 statutes. They are listed on page 11.

With approximately 90 staff members hired under the *Public Service Act*, the Commission is headed by CEO W. Alan Clark, who supervises FICOM's day to day operations. Mr. Clark is also Superintendent of Financial Institutions, Superintendent of Pensions, Superintendent of Real Estate, Registrar of Mortgage Brokers, and CEO of CUDIC.

FICOM's Commissioners

The *Financial Institutions Act* and the *Administrative Tribunals Appointment and Administration Act* set out how Commissioners are appointed. BC's Lieutenant-Governor-in-Council, after a merit-based process and with recommendations from the Minister of Finance, may appoint up to 11 Commissioners.

FICOM Commissioners have two main roles. First, they make major regulatory decisions about incorporations, business authorizations, amalgamations, liquidations, and windups of financial institutions in BC. Second, Commissioners make decisions about credit union stabilization, supervision, and deposit insurance. (Stabilization and supervision are regulatory powers used to assist credit unions that are experiencing financial or other difficulties.)

Commissioners have no legislative responsibilities with respect to the other statutes administered by FICOM such as the *Real Estate Services Act*, the *Real Estate Development Marketing Act*, the *Mortgage Brokers Act*, or the *Pension Benefits Standards Act*. Some responsibilities under the *Financial Institutions Act* and the *Credit Union Incorporation Act* have been delegated to the Superintendent of Financial Institutions under an Instrument of Delegation by the Financial Institutions Commission.

Commissioners do serve as directors of CUDIC unless otherwise specified by the Lieutenant-Governor-in-Council. CUDIC, a statutory corporation, is a separate entity from the Commission. Its mandate is to guarantee deposits and non-equity shares of depositors of BC credit unions, up to the limits prescribed by legislation.

Business Overview

Core Business Areas

Using specific acts of legislation as guidelines, our staff supervise five areas of operation in BC: credit unions and trusts, real estate, mortgage brokers, insurance, and pensions.

- The Credit Unions and Trusts Department is responsible for the regulation of credit unions and trust companies under the *Financial Institutions Act* and the *Credit Union Incorporation Act*.
- The Real Estate and Mortgage Brokers Department is responsible for the registration and regulation of registrants under the *Mortgage Brokers Act*; the administration of the *Real Estate Development Marketing Act*; approval of certain forms under the *Strata Property Act*; and ensuring that unlicensed realtor activity under the *Real Estate Services Act* is investigated.
- The Real Estate Council of British Columbia, a self-regulatory body separate from FICOM, is responsible for the licensing and conduct of real estate professionals in British Columbia. The Superintendent of Real Estate may appeal disciplinary decisions of the Real Estate Council to the Financial Services Tribunal.
- The Insurance Department has specific regulatory responsibilities under the *Financial Institutions Act*, the *Insurance Act*, the *Insurance (Captive Company) Act*, and the *Insurance (Marine) Act*. The department ensures that insurers are properly authorized; supervises insurers and addresses solvency concerns with their operations; addresses market conduct issues; maintains a timely and efficient registration system for insurers and captive insurance companies; and works with other jurisdictions to effectively deal with cross-jurisdictional regulatory problems.
- The Pensions Department regulates all pension plans registered in BC under the *Pension Benefits Standards Act*.

Support Business Areas

Four separate offices provide support services to the main business areas listed above. The Investigative Services Department examines significant statutory breaches of all acts administered by FICOM and conducts investigations into related

criminal matters such as fraud. The Departments of Administrative Services (Records, Systems, Accounting, and the Contact Centre), of Operational Services, and the CEO's office also offer support to the Commission.

The Statutes that We Administer

Our staff administer 10 statutes in the province of BC.

- The *Credit Union Incorporation Act* provides a corporate governance framework for credit unions within the province.
- The *Financial Institutions Act* provides a regulatory framework to govern all provincially regulated financial institutions, including trust companies, insurance companies, and credit unions. It also provides the licensing and regulatory framework for insurance agents, salespersons, and adjusters under the supervision of the Insurance Council of British Columbia. This statute further provides for a credit union deposit insurance fund.
- The *Insurance Act* provides statutory requirements for insurance contracts.
- The *Insurance (Captive Company) Act* establishes BC as a domicile for captive insurance companies and provides them with a registration and regulatory framework.
- The *Insurance (Marine) Act* provides certain statutory requirements for contracts of marine insurance.
- The *Mortgage Brokers Act* provides a registration and regulatory framework for mortgage brokers.
- The *Pension Benefits Standards Act* provides a supervisory framework and minimum standards for provincial pension plans in BC.
- The *Real Estate Development Marketing Act* provides a regulatory framework for the marketing of certain real estate developments.
- The *Real Estate Services Act* provides a framework for the licensing and market conduct of real estate professionals. Under this statute, the Real Estate Council of British Columbia regulates real estate brokerages, real estate representatives, property managers, and strata managers.
- The *Strata Property Act* gives a framework for the development, governance, and management of strata corporations.

Quick Facts

- Most FICOM services can now be paid for by credit card. Further information on this electronic option is now available through our web site at www.fic.gov.bc.ca
- As of March 31, 2007, the Credit Unions and Trusts Department regulated 53 credit unions including Credit Union Central of BC and Stabilization Central Credit Union of BC, 7 provincial trust companies, and 46 extra-provincial trust companies. Total assets of BC's credit union system were \$39.3 billion, up \$3.5 billion from last year.
- Of the 820 pension plans registered in BC, there are 170 plans covering almost 17,000 members working in other provinces.
- The captive insurance area grew from 16 to 18 companies this year, and Canadian Blood Services joined as a new captive. (FICOM is the only jurisdiction in Canada that registers captive insurance companies. A captive is an insurance company owned by a parent that underwrites the insurance needs of the parent's subsidiaries.)
- British Columbians are using mortgage brokers to arrange their mortgages and invest mortgage funds at unprecedented levels in this province.
- The BC pension plan asset base as of March 31, 2007 was \$86.4 billion.



Service Plan Report

Our February 21, 2006 service plan outlined seven goals for the 2006/07 fiscal year:

- GOAL 1:** British Columbians have confidence in **credit unions and trusts**.
- GOAL 2:** British Columbians have confidence in **insurers**.
- GOAL 3:** British Columbians have confidence in provincially regulated **pension plans**.
- GOAL 4:** British Columbians have confidence that **mortgage brokers** are regulated effectively.
- GOAL 5:** British Columbians have confidence in the administration of the **Real Estate Development Marketing Act** and the approval process for strata plans.
- GOAL 6:** The **investigative activities** of FICOM deter non-compliance with statutes and criminal activities related to financial services in British Columbia.
- GOAL 7:** FICOM is **administratively effective and efficient**.



Maintaining British Columbians' Confidence in Credit Unions and Trust Companies

In 2006/07 our staff worked hard to ensure that all of BC's credit unions and trust companies conducted business safely and were effectively regulated.

Regulations require the province's trusts and credit unions to identify and manage the risks they face, and we monitored their ability to do so. When this failed to happen, we stepped in and took regulatory action.

We have dealt with issues and circumstances that posed a risk to depositors by taking regulatory action where appropriate. At the same time, we acknowledge that the marketplace for financial services is very competitive, and have reduced the regulatory burden as much as possible.

The Credit Unions and Trusts Department is dynamic and is the largest group within FICOM.

As of March 31, 2007, the Credit Unions and Trusts Department regulated 53 credit unions, 7 provincial trust companies, and 46 extra-provincial trust companies (see Table 1). Total assets of BC's credit union system were \$39.3 billion, up \$3.5 billion from last year. Also, total assets under administration by provincial and extra-provincial trust companies at that time were \$135 billion.

Table 1: Authorized Financial Institutions in British Columbia

| Authorized Financial Institutions | 2004/05 | 2005/06 | 2006/07 |
|--|-----------------|----------------|----------------|
| Credit Unions | 54 | 52 | 51 |
| Central Credit Unions | 2 | 2 | 2 |
| Credit Union System Total Assets | \$31.6 billion | \$35.8 billion | \$39.3 billion |
| BC Incorporated Trust Companies | 5 | 7 | 7 |
| Extra-Provincial Trust Companies | 44 | 46 | 46 |
| Trust Company Total Deposits in BC | \$6.4 billion | \$6.1 billion | \$5.9 billion |
| Trust Company Total Assets Under Administration in BC | \$131.3 billion | \$151 billion | \$135 billion |
| Regulatory Activities | | | |
| Business Authorization Applications for Trust Companies—Approved | 2 | 5 | 1 |
| Amalgamations of Extra-Provincial Trust Companies | 2 | 2 | 0 |
| Credit Unions Merged | 7 | 2 | 1 |
| Credit Unions Under Supervision | 4 | 4 | 5 |

British Columbia's 53 authorized credit unions effective March 31, 2007 included

- Aldergrove Credit Union
- Arrow Credit Union
- Bulkley Valley Credit Union
- CCEC Credit Union
- Coast Capital Savings Credit Union
- Coastal Community Credit Union
- Columbia Valley Credit Union
- Community Savings Credit Union
- Compensation Employees Credit Union
- Credit Union Central of British Columbia
- Creston & District Credit Union
- Cumberland & District Credit Union
- East Kootenay Community Credit Union
- Enderby & District Credit Union
- Envision Credit Union
- Grand Forks District Savings Credit Union
- Greater Vancouver Community Credit Union
- Greater Victoria Savings Credit Union
- Gulf and Fraser Fishermen's Credit Union
- Heritage Credit Union
- Integris Credit Union
- Interior Savings Credit Union
- Island Savings Credit Union
- Khalsa Credit Union
- Kootenay Savings Credit Union
- Ladysmith & District Credit Union
- Lake View Credit Union
- Mount Lehman Credit Union
- Nelson & District Credit Union
- North Peace Savings and Credit Union
- North Shore Credit Union
- Northern Savings Credit Union
- Operating Engineers Credit Union
- Osoyoos Credit Union
- Prospera Credit Union
- Powell River Credit Union*
- Quadra Credit Union
- Revelstoke Credit Union
- Salmon Arm Savings and Credit Union
- Sharons Credit Union
- Spruce Credit Union
- Stabilization Central Credit Union of British Columbia
- Summerland & District Credit Union
- Sunshine Coast Credit Union
- Union Bay Credit Union
- V.P. Credit Union
- Valley First Credit Union
- Van Tel/Safeway Credit Union
- Vancouver City Savings Credit Union
- Vancouver Firefighters Credit Union
- Vernon & District Credit Union*
- Westminster Savings Credit Union
- Williams Lake and District Credit Union

*Names have since changed

Provincially incorporated trust companies with business authorizations effective March 31, 2007 included

- All Nations Trust Company
- Asian Trust Company Inc.*
- Community Western Trust Corporation
- Pacific Corporate Trust Corporation
- Solus Trust Company Limited
- Staffordshire Trust Company*
- Western Pacific Trust Company

*Restricted trust

Goal 1 is for British Columbians to have

confidence in credit unions and trusts

because they are effectively regulated.

Performance Report

The Supervisory Framework accommodates the diversity of the provincially regulated financial institutions in terms of size and activities by gearing supervisory attention to each individual financial institution's unique activities and risks. It also provides for supervisory strategy to be optimally adjusted to the effectiveness of the risk management processes employed by the financial institutions.

Risk assessment entails identifying significant activities of an institution and assessing each activity for all inherent business risks and risk management practices based on a number of specific criteria. The resulting residual risk in these activities is a function of the aggregate inherent risk offset by the aggregate quality of risk management. In the final step, the overall outcome of the residual risk

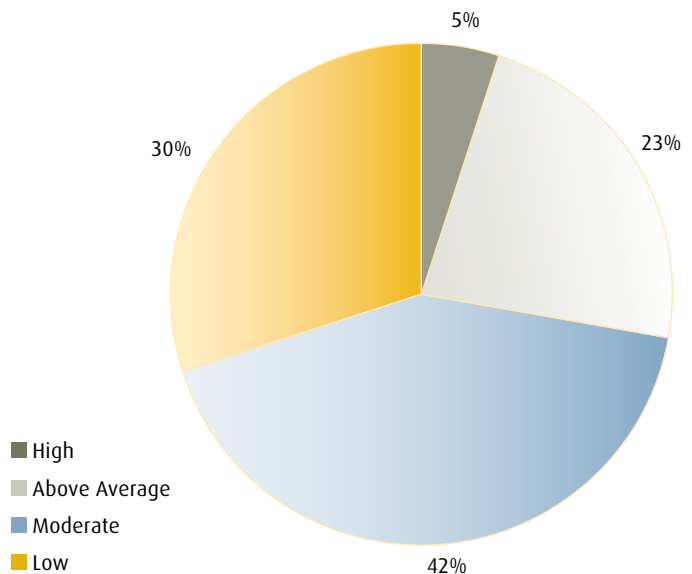
assessment of the institution as a whole is compared to its financial strength in terms of solvency (capital ratio) and profitability (return on average assets) to determine an appropriate composite risk rating.

Department staff have continued to evaluate credit unions with the risk-based supervisory framework. A total of 40 out of 51 (78%) credit unions, representing 72% of the system's total assets have been completed utilizing the framework and only one of the large credit unions exceeding \$1 billion and certain smaller credit unions in the Lower Mainland and on Vancouver Island have not been reviewed. All credit unions will be completed in the next fiscal year.

Figure 1 shows that composite risk for 72% of 40 credit unions is moderate to low.

FIGURE 1: Composite Risk for 40 Credit Unions as at March 31, 2007

We have completed risk-based supervisory framework in 40 out of 51 (78%) credit unions, representing 72% of the system's total assets, and consulted stakeholders about the effectiveness of our actions.



During the year, 2 credit unions were identified with significant risks and were subsequently placed under supervision. At March 31, 2007 there was a total of 5 credit unions under supervision.

Credit unions continue to respond to the needs of their members, including members' demands for

mortgages and other personal loans. Credit unions also play a vital role in promoting business growth in BC through commercial loans. Figure 2 shows the increase in loans to credit union members over the past five years.

FIGURE 2: Growth of Personal and Commercial Loans to Credit Union Members



| Credit Union Regulation | 2004/05 | 2005/06 | 2006/07 |
|--------------------------------|------------------|------------------|------------------|
| Total FICOM Credit Union Fees* | \$2,912,894 | \$3,208,653 | \$3,487,185 |
| Total CUDIC Assessments | \$ Nil | \$ Nil** | \$16,218,247 |
| Total Credit Union Assets | \$32,295,430,502 | \$36,019,848,495 | \$38,912,972,387 |

*includes approvals, business authorizations, incorporations, amalgamations and mergers

**does not include a one-time assessment of \$83 million to increase the deposit insurance fund

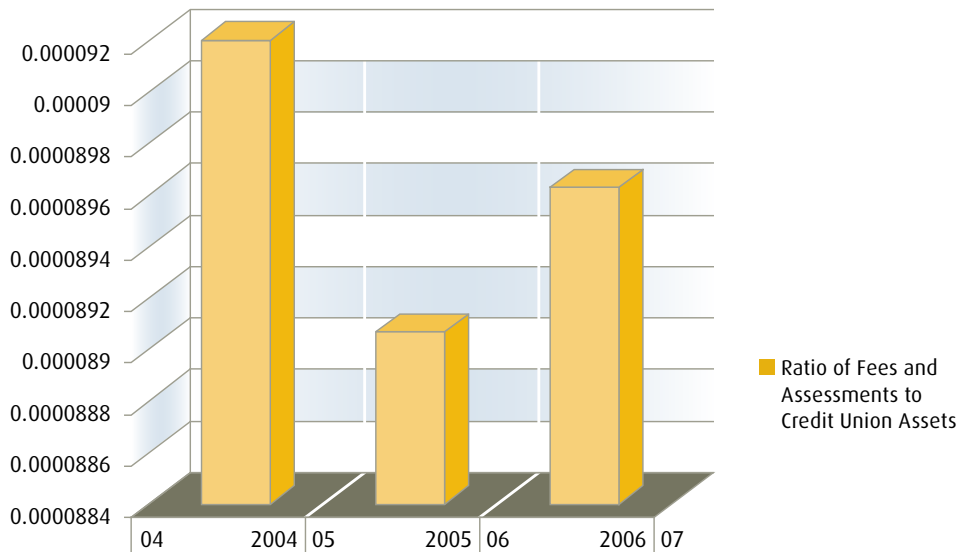
Performance Report

FICOM is committed to reducing the cost of financial sector regulation in BC.

Figure 3 outlines the amount of credit union fees FICOM collected in past fiscal years, divided by the value of credit union assets in BC.

We made several improvements to departmental procedures during the year. We introduced new software and are repatriating the credit union financial database back into our offices.

FIGURE 3: Ratio of FICOM Credit Union Fees and Assessments to Total Credit Union Assets—Based on Audited Year-End Data



Staff made several improvements to departmental procedures during the year. First, we introduced new software programs: TeamMate, for everyday file management, and Methodware, for risk assessment.

Second, FICOM is repatriating the credit union financial database back into our offices from the province's stabilization authority, Stabilization Central of British Columbia. This project is well underway and is targeted for completion in July 2007.

Training continued with instruction on the new software packages. Also, staff attended a seminar on money laundering and attended lending and treasury conferences.

We have been successful in employing students from post-secondary co-operative work programs in 2006. Most have come from either Simon Fraser University or the University of Victoria and all stayed for terms of four or eight months. The co-op students have been an asset to the department, learned quickly, and some have been hired as permanent employees.

Keeping the Public's Trust in Insurers

British Columbia is Canada's third largest insurance market. By the end of 2006/07, there were 262 authorized insurers (excluding ICBC) operating in the province writing almost \$6 billion (see Table 3) in insurance premiums.

Our job in the Insurance Department is to regulate these private-sector insurers. We did this during

fiscal 2006/07 by maintaining an efficient business authorization system for insurers, regulating market conduct and the solvency of authorized insurers and preventing unauthorized insurance activity. When necessary, we took enforcement action against those who contravened the requirements of the legislation to ensure compliance.

TABLE 3: Regulation of Insurers in British Columbia

| Authorized Insurers | 2004/05 | 2005/06 | 2006/07 |
|---|---------------|---------------|----------------|
| BC Incorporated Insurance Companies and Fraternal Insurance Societies | 8 | 7 | 7 |
| Extra-Provincial Insurance Companies | 230 | 232 | 230 |
| Reciprocal Insurance Companies | 5 | 5 | 7 |
| Captive Insurance Companies | 13 | 16 | 18 |
| Insurance Premiums Written in BC (Excluding ICBC) | \$5.5 billion | \$5.7 billion | \$5.98 billion |
| Regulatory Activities | | | |
| Applications for New Business Authorizations of Insurance Companies* – Received | 10 | 7 | 8 |
| New Business Authorizations of Insurance Companies* – Approved | 10 | 7 | 7 |
| Revocations of Insurance Company Business Authorizations – Approved | 10 | 6 | 9 |
| Number of Applications for Amalgamations of Insurance Companies – Received | 2 | 1 | 1 |
| Amalgamations of Insurance Companies – Approved | 2 | 1 | 1 |
| Number of On-Site Inspections Performed | 5 | 5 | 5 |
| Number of Compliance Issues Handled | 126 | 86 | 86 |

*includes incorporations

Goal 2 is for British Columbians to have confidence in insurers because they are effectively regulated.

Performance Report

In addition to carrying out the day to day work associated with these responsibilities, the department undertook a number of special projects in 2006/2007.

British Columbia continued to play an active role in the Canadian Council of Insurance Regulators (CCIR), attempting to streamline and harmonize insurance regulation across Canada. Michael Grist, British Columbia's Deputy Superintendent of Insurance and Pensions, was re-elected as CCIR's Chair and the Insurance Department participated in nine of the association's working groups on topics ranging from the update of financial and corporate filings to the development of more risk-based market conduct regulation.

As part of a multi-year project in co-operation with the Office of the Superintendent of Financial Institutions (OSFI) Canada and Autorité des marchés financiers, Québec, staff participated in a project to update the Life – 1 Annual Return. This return contains the detailed annual financial statements used to monitor life insurers. The end result of this project was a new harmonized and more relevant financial return for life insurers.

Staff worked with provincial insurers in preparing for the potential impacts of flu pandemics.

Staff helped support the work of the BC Office of Housing and Construction Standards in reviewing and modernizing the building regulatory system, a system for achieving safety in the design, construction and occupancy of buildings.

We worked with the Homeowners Protection Office and the Insurance Council of BC in clarifying requirements and responsibilities of parties involved in providing Home Warranty Insurance.

We participated in several legislation reviews, including the Ministry of Finance's ongoing review of BC's *Insurance Act*.

We instituted a new, electronic financial filing system for extra-provincial insurers, and streamlined the filing practices for these insurers.

The Superintendent of Financial Institutions issued a cease-and-desist order against Sinclair Insurance Co., an unauthorized insurer who claimed to provide a wide range of insurance such as insurance for amusement parks through the internet. Investigation of this "insurer" found that Sinclair Insurance Co. had no authorization to conduct insurance business anywhere in the world.

We dealt with a significant expansion of interest in the province's Captive Insurance Domicile program. Captive insurance companies provide insurance services to associated organizations like corporate conglomerates or associations. British Columbia is the only Canadian jurisdiction which presently provides for captive insurers. During the past two years the program expanded from 13 to 18 captive insurance companies including a new Canadian Blood Services Captive insurance company.

TABLE 4: The Cost of Insurance Regulation

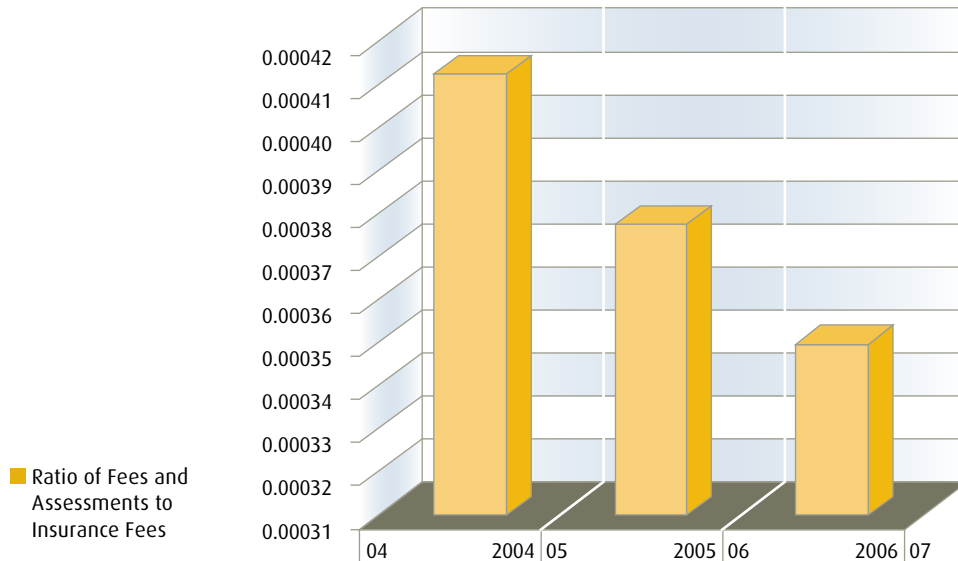
| Fees and Premiums | 2004/05 | 2005/06 | 2006/07 |
|---|----------------|----------------|----------------|
| Total FICOM Insurance Fees*—Annual | \$2,186,152 | \$2,151,042 | \$2,090,940 |
| Total Insurance Premiums Written in BC (excluding ICBC) | \$5.3 billion | \$5.7 billion | \$5.98 billion |

* includes approvals, business authorizations, incorporations, amalgamations and mergers

In spite of increased workloads and new responsibilities, the cost of insurance regulation at the Financial Institutions Commission (FICOM) remains very reasonable. Figure 5 shows the amount

of insurance fees FICOM collected in past fiscal years, divided by the amount of insurance premiums written in BC.

FIGURE 5: Ratio of Insurance Fees and Assessments to Insurance Premiums



Appendix 1 provides a list of British Columbia authorized insurers at March 31, 2007.

Appendix 1: Authorized Insurers at March 31, 2007

Provincial Insurance Companies:

- BCAA Insurance Corporation
- British Columbia Life & Casualty Company
- The Mutual Fire Insurance Company of British Columbia
- Optimum West Insurance Company
- Pacific Coast Fishermen's Mutual Marine Insurance Company
- PBC Health Benefits Society
- Westland Insurance Company Limited

Captive Insurance Companies:

- Baycrest Captive Insurance Company Limited
- BCF Captive Insurance Company Ltd.
- BCR Captive Insurance Co. Ltd.
- BMC Financial Inc.
- Canadian Blood Services Captive Insurance Company Ltd.
- CRNBC Captive Insurance Company
- CUPP Services Ltd.
- Great Pacific Captive Insurance Ltd.
- Hyundai Auto Canada Captive Insurance Inc.
- LSBC Captive Insurance Company Ltd.
- MacDon Financial Inc.
- PacCorp Financial Inc.
- Penguins International Corp.
- RCA Indemnity Corporation
- TorLea Casualty Ltd.
- Transportation Property & Casualty Company Inc.
- West Fraser Captive Inc.
- Westcoast Indemnity Company Limited

Reciprocal Exchanges:

- Asset Protection Insurance Exchange
- Canadian Airports Reciprocal Insurance Exchange
- Canadian Universities Reciprocal Insurance Exchange
- Community Newspapers Reciprocal Insurance Exchange
- Healthcare Insurance Reciprocal of Canada
- Lumbermen's Underwriting Alliance
- The Municipal Insurance Association of British Columbia

Extra-provincial Insurance Companies:

- ACE INA Insurance
- ACE INA Life Insurance
- Actra Fraternal Benefit Society
- Aetna Life Insurance Company
- Affiliated FM Insurance Company
- AIG Assurance Canada
- AIG Life Insurance Company of Canada
- AIG United Guaranty Mortgage Insurance Company Canada
- Alberta Motor Association Insurance Company
- Allianz Global Risks US Insurance Company
- Allianz Life Insurance Company of North America
- Allstate Insurance Company

- Allstate Insurance Company of Canada
- American Bankers Insurance Company of Florida
- American Bankers Life Assurance Company of Florida
- American Health and Life Insurance Company
- American Home Assurance Company
- American Income Life Insurance Company
- American Road Insurance Company, The
- AMEX Assurance Company
- Anglo Canada General Insurance Company
- Arch Insurance Company
- Ascentus Insurance Ltd.
- Aspen Insurance UK Limited
- Assumption Mutual Life Insurance Company
- Assurant Life of Canada
- Atradius Credit Insurance N.V.
- Aviva Insurance Company of Canada
- Aviva International Insurance Limited
- AXA Assurances Inc.
- AXA Corporate Solutions Assurance
- AXA Equitable Life Insurance Company
- AXA Insurance (Canada)
- AXA Pacific Insurance Company
- Belair Insurance Company Inc.
- Blue Cross Life Insurance Company of Canada
- BMO Life Insurance Company
- Boiler Inspection and Insurance Company of Canada, The
- British Aviation Insurance Company Limited, The
- Canada Life Assurance Company, The
- Canada Life Insurance Company of Canada, The
- Canadian Direct Insurance Incorporated
- Canadian Farm Insurance Corp.
- Canadian Northern Shield Insurance Company
- Canadian Premier Life Insurance Company
- Canadian Union Insurance Company
- Canassurance Insurance Company
- Centennial Insurance Company
- Chicago Title Insurance Company
- Chubb Insurance Company of Canada
- CIBC Life Insurance Company Limited
- CIGNA Life Insurance Company of Canada
- Combined Insurance Company of America
- Commerce and Industry Insurance Company of Canada
- Commonwealth Insurance Company
- Compagnie Française d'Assurance pour le Commerce Extérieur
- CompCorp Life Insurance Company
- Continental Casualty Company
- Co-operators General Insurance Company
- Co-operators Life Insurance Company
- COSECO Insurance Company
- Croatian Fraternal Union of America
- CT Financial Assurance Company
- CUMIS General Insurance Company
- Cumis Life Insurance Company
- Cuna Mutual Insurance Society
- DaimlerChrysler Insurance Company
- Desjardins Financial Security Life Assurance Company
- Dominion of Canada General Insurance Company, The
- Eagle Star Insurance Company Limited
- Ecclesiastical Insurance Office PLC
- Echelon General Insurance Company
- Economical Mutual Insurance Company
- Electric Insurance Company
- Elite Insurance Company
- Empire Life Insurance Company, The
- Employers Insurance Company of Wausau
- Employers Reinsurance Corporation
- Equitable Life Insurance Company of Canada, The
- EULER American Credit Indemnity Company
- Everest Insurance Company of Canada
- Factory Mutual Insurance Company
- FCT Insurance Company Ltd.
- Federal Insurance Company
- Federated Insurance Company of Canada
- Federation Insurance Company of Canada

Performance Report

- Fenchurch General Insurance Company
- Fidelity Investments Insurance Company of Canada
- First American Title Insurance Company
- First Canadian Insurance Corporation
- First North American Insurance Company
- Forethought Life Insurance Company
- GCAN Insurance Company
- General American Life Insurance Company
- General Re Life Corporation
- General Reinsurance Corporation
- Genworth Financial Mortgage Insurance Company Canada
- Gerber Life Insurance Company
- Global Reinsurance Company
- GMS Insurance Inc.
- Gore Mutual Insurance Company
- Grain Insurance and Guarantee Company
- Grand Orange Lodge of British America, The
- Great American Insurance Company
- Great American Insurance Company of New York
- Great-West Life Assurance Company, The
- Green Shield Canada
- Guarantee Company of North America, The
- Hartford Fire Insurance Company
- Hartford Life Insurance Company
- Heritage General Insurance Company
- Household Life Insurance Company
- Independent Order of Foresters, The
- Industrial Alliance Insurance and Financial Services Inc.
- Industrial-Alliance Pacific General Insurance Corporation
- Industrial-Alliance Pacific Life Insurance Company
- ING Insurance Company of Canada
- ING Novex Insurance Company of Canada
- Innovative Insurance Corporation
- Jevco Insurance Company
- Jewelers Mutual Insurance Company
- Kingsway General Insurance Company
- Knights of Columbus
- La Capitale Insurance and Financial Services Inc.
- Lawyers' Professional Indemnity Company
- Lawyers Title Insurance Corporation
- Legacy General Insurance Company
- L'Entraide Assurance Mutual Company
- Liberty Life Assurance Company of Boston
- Liberty Mutual Insurance Company
- Life Insurance Company of North America
- Life Investors Insurance Company of America
- Lloyd's Underwriters
- Lombard General Insurance Company of Canada
- Lombard Insurance Company
- London and Midland General Insurance Company
- London Life Insurance Company
- Lutheran Life Insurance Society of Canada
- Manufacturers Life Insurance Company, The
- Manulife Canada Ltd.
- Markel Insurance Company of Canada
- MAX Canada Insurance Company
- MD Life Insurance Company
- MetLife Canada
- Metropolitan Life Insurance Company
- Millennium Insurance Corporation
- Minnesota Life Insurance Company
- Mitsui Sumitomo Insurance Company Ltd.
- Mortgage Insurance Company of Canada, The
- Motors Insurance Corporation
- Munich Reinsurance America, Inc.
- Munich Reinsurance Company of Canada
- National Bank Life Insurance Company
- National Liability & Fire Insurance Company
- New York Life Insurance Company
- NIPPONKOA Insurance, Limited
- Nordic Insurance Company of Canada, The
- North American Specialty Insurance Company
- North West Commercial Traveller's Association of Canada, The
- Old Republic Insurance Company of Canada

- Omega General Insurance Company
- Order of United Commercial Travelers of America, The
- Peace Hills General Insurance Company
- Penncorp Life Insurance Company
- Pennsylvania Life Insurance Company
- Personal Insurance Company, The
- Portage La Prairie Mutual Insurance Company, The
- Primerica Life Insurance Company of Canada
- Primmum Insurance Company
- Principal Life Insurance Company
- Protective Insurance Company
- Prudential Insurance Company of America, The
- RBC General Insurance Company
- RBC Life Insurance Company
- RBC Travel Insurance Company
- Reliable Life Insurance Company
- Revios Reinsurance Canada Ltd.
- RGA Life Reinsurance Company of Canada
- Royal & Sun Alliance Insurance Company of Canada
- Scotia General Insurance Company
- Scotia Life Insurance Company
- Scottish & York Insurance Co. Limited
- SecuriCan General Insurance Company
- Security Insurance Company of Hartford
- Security National Insurance Company
- Sentry Insurance A Mutual Company
- Sompo Japan Insurance Inc.
- Sons of Scotland Benevolent Association
- Sovereign General Insurance Company, The
- SSQ, Life Insurance Company, Inc.
- St. Paul Fire and Marine Insurance Company
- Standard Life Assurance Company 2006, The
- Standard Life Assurance Company of Canada, The
- Standard Life Assurance Limited
- Stewart Title Guaranty Company
- Stonebridge Life Insurance Company
- Sun Life Assurance Company of Canada
- Sun Life Insurance (Canada) Limited
- Swiss Re Life & Health Canada
- Swiss Reinsurance Company Canada
- T.H.E. Insurance Company
- TD General Insurance Company
- TD Home and Auto Insurance Company
- TD Life Insurance Company
- Temple Insurance Company
- TIG Insurance Company
- Tokio Marine & Nichido Fire Insurance Co., Ltd.
- Traders General Insurance Company
- Trafalgar Insurance Company of Canada
- Trans Global Insurance Company
- Trans Global Life Insurance Company
- Transamerica Life Canada
- Transatlantic Reinsurance Company
- Travelers Guarantee Company of Canada
- Trisura Guarantee Insurance Company
- Unifund Assurance Company
- United American Insurance Company
- Unity Life of Canada
- Virginia Surety Company, Inc.
- Washington National Insurance Company
- Waterloo Insurance Company
- Wawanesa Life Insurance Company, The
- Wawanesa Mutual Insurance Company, The
- Western Life Assurance Company
- Western Surety Company
- Woman's Life Insurance Society
- XL Insurance Company Limited
- XL Reinsurance America Inc.
- Zenith Insurance Company
- Zurich Insurance Company

Maintaining British Columbians' Confidence in Provincially Registered Pension Plans



Goal 3 is for British Columbians to have confidence in provincially registered pension plans because they are effectively regulated.

British Columbia is Canada's fourth largest regulator of registered pension plans. By the end of 2006/07, there were 812 pension plans registered in the province. These plans covered more than 500,000 members currently employed, and another 450,000 retirees or former employees. Assets under administration in these plans exceeded \$86 billion.

Our job in the Pensions Department is to ensure that plans are administered appropriately, including regulation of the funding of plans. In 2006/07 this was accomplished through maintaining an efficient registration system for new plans and plan amendments, reviewing financial and actuarial valuation reports, responding to enquiries and complaints, and undertaking enforcement action against those who contravened the requirements of legislation to ensure compliance.

In addition, we worked closely with other regulators in Canada to protect the interests of British Columbians who participate in pension plans registered elsewhere in the country. There are 1,400 pension plans registered in other jurisdictions covering almost 75,000 British Columbians. In BC, about 170 pensions have almost 17,000 members working in other provinces.

Table 5 outlines some of the key facts about BC pension plans and our regulatory activities.

TABLE 5: Pension Plans in British Columbia

| Pension Plans | 2004/05 | 2005/06 | 2006/07 |
|---|----------------|----------------|----------------|
| Registered Pension Plans | 819 | 810 | 812 |
| Pension Plan Assets | \$66.9 billion | \$74.3 billion | \$86.4 billion |
| Active Plan Members | 480,793 | 475,749 | 534,373 |
| Pensioners | 182,648 | 189,785 | 265,893 |
| Members with Deferred Entitlements | 153,976 | 165,840 | 187,407 |
| Regulatory Activities | | | |
| New Plans Registered | 30 | 19 | 17 |
| Approved Plan Terminations | 65 | 24 | 25 |
| Registered Plan Amendments | 271 | 234 | 161 |
| Registered Savings Plan/Life Income Fund Contracts Reviewed | 306 | 128 | 102 |
| Completed Assignments | 1,512 | 1,202 | 1,328 |
| Regulatory Fees | | | |
| Average Fees Per Member | \$1.45 | \$1.40 | \$1.23 |
| Average Fees Per Active Member | \$2.47 | \$2.45 | \$2.27 |
| Average Fee Per \$1,000 of Assets | \$0.0200 | \$0.0157 | \$0.0162 |

In addition to carrying out the day to day work associated with these responsibilities, 2006/2007 presented the department with a number of special challenges:

Solvency continues to be the primary driver of pension plan funding. We worked closely with the Ministry of Finance Financial and Corporate Sector Policy Branch on a review of the solvency rules applicable to pension plans. We will continue to closely monitor solvency issues.

British Columbia officials joined the Reciprocal Agreement Committee of the Canadian Association of Pension Supervisory Authorities. The Reciprocal Agreement Committee is negotiating a new agreement to regulate plans that provide benefits to members in

more than one province. The original agreement was put in place in 1968 and requires updating.

The partial termination of the Western Forest Products plan relating to the closure of the Port Alice cellulose mill, which occurred in 2004, was completed and members received their benefits from that plan.

We also worked closely with the appointed administrator of the three plans sponsored by New Skeena Cellulose, formerly Skeena Cellulose, to wind down the plans of this bankrupt employer.

Staff received and evaluated submissions from companies wishing to provide investment-related services to assist in evaluating investment practices undertaken by pension plans.

Performance Report

The Superintendent of Pensions received several reports of non-remittance of contributions by employers sponsoring pension plans. These reports were investigated and, where necessary, the Superintendent issued directions for compliance to ensure that employers made appropriate contributions to their pension plans.

FICOM implemented our new pension database management system. The new database will allow us to collect and analyze financial information so that we may identify plans showing greater signs of risk. The new version is also compatible with electronic filing.

We significantly amended the Annual Information Return and Application for Registration. We also introduced a new reporting form, the Financial Information Return or FIR. The FIR will allow us to look more closely at investment allocations of larger plans to identify potential risks faced by pension plans.

Market performance in 2006 was good, and many plans that had significant deficits have either significantly or fully reduced their unfunded position. Although the financial health of plans has improved, staff will closely monitor developments both in the markets at large and for individual pension plans.

In the coming year, we will continue to develop a more risk-based regulatory framework for pension plans. In conjunction with policy staff at the Ministry of Finance, we are looking at the recent changes made by the federal government with respect to phased retirement.

Appendix 1 provides a listing of British Columbia's largest defined benefit and defined contribution pension plans. Appendix 2 provides some information about trends in plan solvency and contributions required to meet the solvency requirements set out in the legislation.

Of the 820 pension plans registered in BC, there are 170 plans covering almost 17,000 members working in other provinces.



Appendix 1

Largest Defined Benefit Pension Plans

| Name of Plan | Assets in Plan |
|---|------------------|
| Municipal Pension Plan | \$23,776,460,000 |
| Teachers' Pension Plan | \$16,034,200,000 |
| Public Service Pension Plan | \$15,971,850,000 |
| IWA – Forest Industry Pension Plan | \$3,174,254,465 |
| British Columbia Hydro and Power Authority Pension Plan | \$2,499,845,000 |
| Pulp and Paper Industry Pension Plan | \$2,335,992,970 |
| College Pension Plan | \$2,089,804,000 |
| Weyerhaeuser Company Ltd. Retirement Plan for Non-Union Employees | \$932,817,184 |
| Workers' Compensation Board Superannuation Fund | \$832,761,000 |
| University of British Columbia Staff Pension Plan | \$791,448,758 |

Largest Defined Contribution Pension Plans

| Name of Plan | Assets in Plan |
|--|-----------------|
| University of British Columbia Faculty Pension Plan | \$1,248,384,637 |
| BCGEU Pension Plan | \$146,883,731 |
| Employees' Pension Plan for Employees of the Archdiocese of Vancouver | \$93,112,615 |
| Intrawest Corporation Employee Pension Plan | \$71,685,544 |
| Pension Plan for Employees of Canadian Ford Dealers/Amalgamated Plan | \$66,105,568 |
| 7-Eleven Canada Inc. Pension Plan | \$65,950,841 |
| Skytrain Employees' Pension Plan | \$47,331,575 |
| Registered Pension Plan for Employees of Canadian Conference of the Mennonite Brethren Church of North America | \$47,287,412 |
| Pension Plan for the Union Employees of Pacific Blue Cross | \$47,081,774 |
| BPC BC Labs LP Pension Plan | \$41,612,107 |

Performance Report

Appendix 2

Below (Figures 6–8) are the three charts we submitted to the Financial and Corporate Sector

Policy Branch in preparation for our work with them on the solvency consultation.

FIGURE 6: Funded and Solvency Ratios—All Defined Benefit Plans

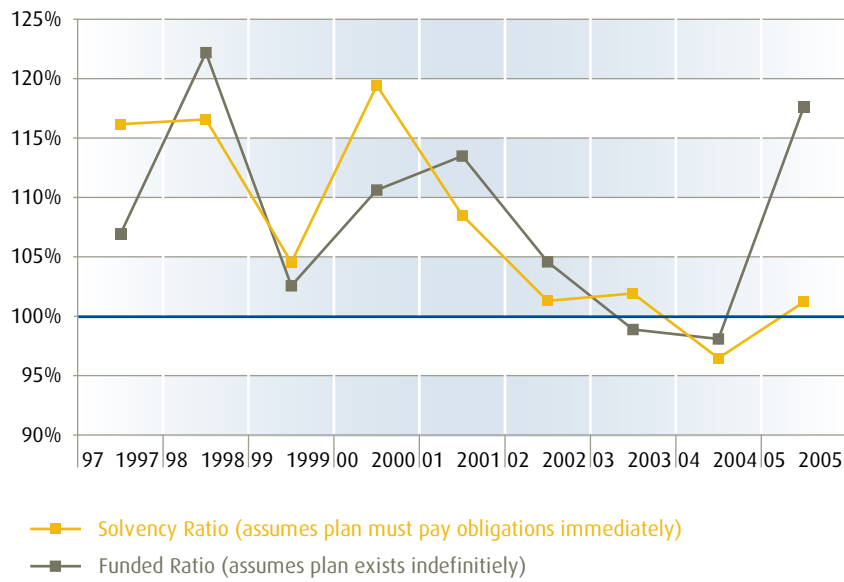


FIGURE 7: 2004 Solvency Ratio Distribution—Multi-Employer Plans

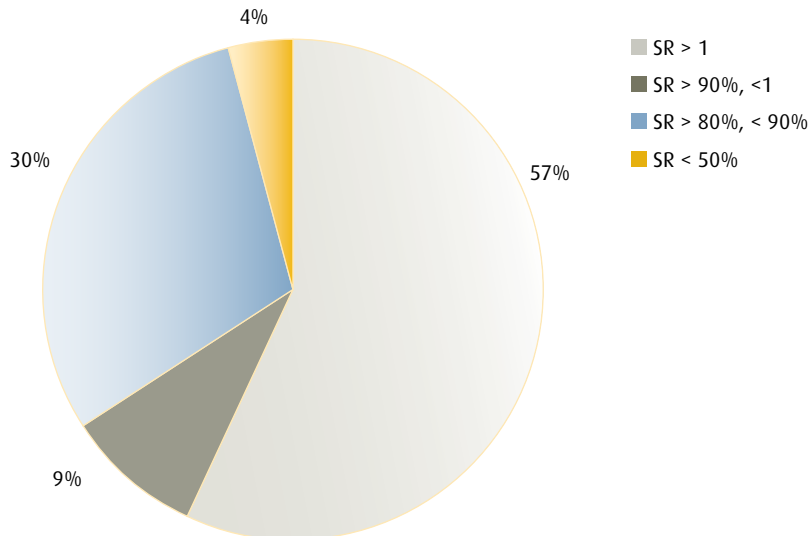
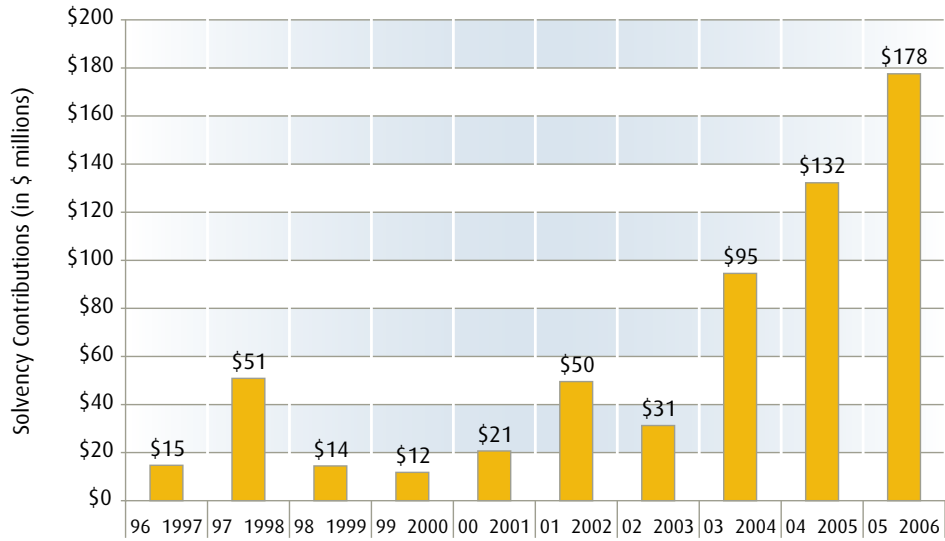


FIGURE 8: Solvency Contributions—All Plans



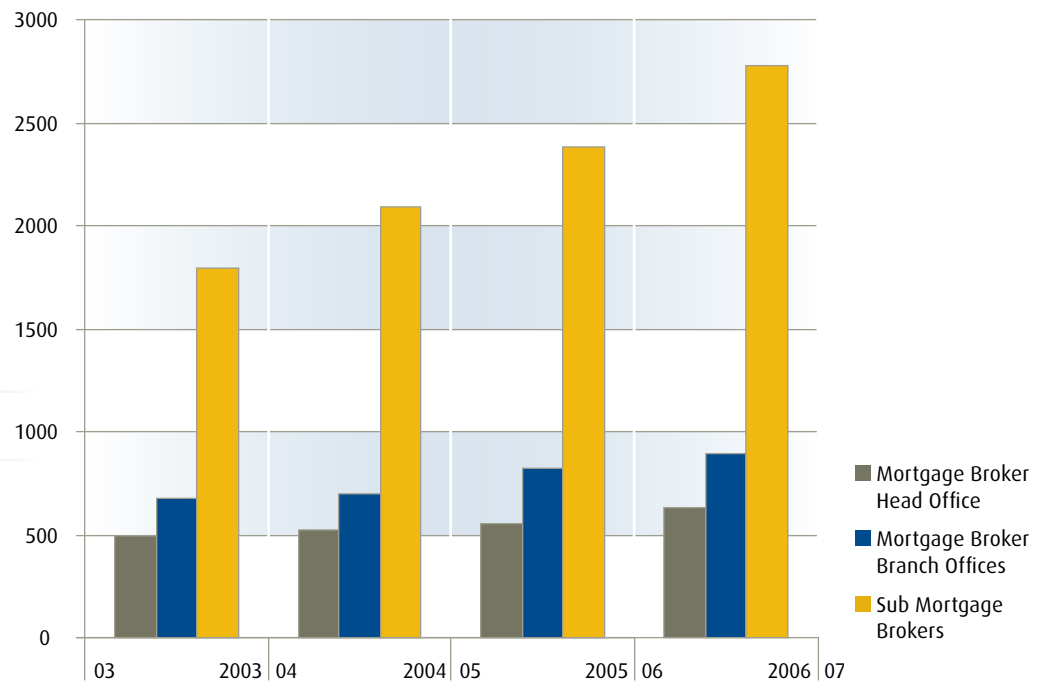
Assuring the Public that British Columbia's Mortgage Brokers are Effectively Regulated

British Columbians are using mortgage brokers to arrange their mortgages and invest mortgage funds at unprecedented levels in this province. The evolution in the mortgage broker industry has resulted in a sharp rise in the number of mortgage broker registration applicants in 2006/07. The total number of mortgage broker registrants increased by 16.20% over the last year to 897. At March 2007, they employed 2,765 submortgage brokers, which is an increase of 16.86% from the previous year.

We regulate mortgage brokers and the submortgage brokers who they employ to arrange, buy, sell,

administer and fund mortgages on residential and commercial real estate in BC. We use a variety of mechanisms to oversee mortgage broker conduct and ensure their compliance with the *Mortgage Brokers Act*. These mechanisms include reviewing financial reports which indicate solvency, conducting more extensive background checks on registration applicants, investigating reports of mortgage brokering by persons who are not registered, on site examinations of mortgage broker operations and investigations of complaints about mortgage brokers from members of the public.

FIGURE 9: Mortgage Broker Growth in British Columbia



Goal 4 is for British Columbians to have confidence that mortgage brokers are regulated effectively.

TABLE 6: Mortgage Broker Registrations in British Columbia

| Registered Mortgage Brokers | As at March 2005 | As at March 2006 | As at March 2007 | Increase from 2006 to 2007 |
|---|------------------|------------------|------------------|----------------------------|
| Mortgage Broker Head Offices | 520 | 543 | 631 | 16.20% |
| Total Mortgage Broker Head and Branch Offices | 707 | 799 | 897 | 12.26% |
| Sub Mortgage Brokers | 2,107 | 2,366 | 2,765 | 16.86% |

During the last year, we have developed a comprehensive examination program, which seeks mortgage broker compliance through voluntary measures, where appropriate. However, there were two examinations which resulted in the Registrar imposing sanctions through formal consent orders.

This year we negotiated 18 consent orders with mortgage brokers and made 4 hearing decisions, which resulted in mortgage brokers being ordered to pay over \$180,000 in penalties and costs.

We responded to 20 enquiries or complaints about mortgage brokers who were not registered.

Mortgage fraud remains a matter of great concern. Staff continue to update their knowledge on this and related issues. Issues of concern are discussed with industry members and the Mortgage Brokers Association of British Columbia.

We continue to enhance mortgage broker educational programs through the University of British Columbia and an inter-provincial course has been established which will reduce certain educational requirements for out of province mortgage brokers.

We continue to work with the British Columbia Securities Commission on difficult issues where there is jurisdictional overlap between the *Mortgage Brokers Act* and the *Securities Act*.

We strove to reduce the turnaround time for mortgage broker and submortgage broker applications. Last year, the average time for processing applications for mortgage brokers was approximately 24 days, and the average time for submortgage broker applications was less than 13 days. We continued to improve the registration process by streamlining all registration application forms.

The service plan called for our assistance in development of new legislation. The drafting of new legislation was deferred by the Financial and Corporate Sector Policy Branch of the Ministry of Finance, although we continue to monitor the legislation and suggest necessary amendments to the legislation.

New cost of credit disclosure legislation was introduced by the province in July of 2006. We worked hard to analyze it and prepare information bulletins in order to assist mortgage brokers in understanding their new disclosure requirements.

Maintaining service levels and adjusting to the high volume of work remained a challenge for us this year.

For complete and accurate submortgage broker applications, it takes an average of 13 days for staff to process an application and provide the applicant with a registration certificate.



13'

14'

1'3"

683/42 193

123/45 178

683/42 193

123/45 178

Keeping British Columbians' Trust in Multi-Unit Real Estate Development Marketing

Due to the dynamic real estate market in BC, our staff were kept very busy overseeing the marketing of multi-unit real estate developments.

Under the *Real Estate Development Marketing Act* developers must file disclosure statements with the office of the Superintendent of Real Estate for most types of developments. If a developer does not include the required information in their disclosure statement about the development property—such as development approvals, details about the financing, a lawyer's

confirmation of ownership of the land and statutory protections for the purchaser—the development must not be marketed in British Columbia.

Under the *Real Estate Development Marketing Act*, this year we reviewed over 1,400 Disclosure Statements and Amendments using a risk-based system.

Table 7 outlines real estate regulation activity over the past three years.

Table 7: Real Estate Regulation in British Columbia

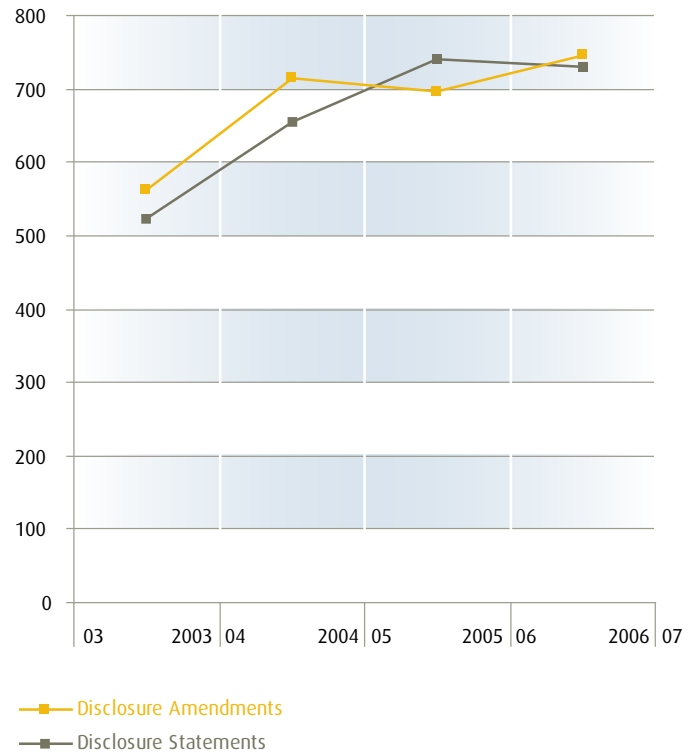
| Real Estate Services | 2004/05 | 2005/06 | 2006/07 |
|------------------------------|---------|---------|---------|
| Disclosure Statements | 678 | 741 | 729 |
| Disclosure Amendments | 737 | 697 | 746 |
| Exemptions | 10 | 8 | 7 |
| Strata Property Services | | | |
| Strata Plan Forms | 314 | 278 | 188 |
| Rental Disclosure Statements | 476 | 481 | 505 |

We processed 729 disclosure statements, 746 amendments, and 505 rental disclosure statements. The average turnaround time was just over 5 days. Additionally, 188 strata plan forms were approved in a timely average of less than 2 days.

Goal 5 is for British Columbians to have confidence in the regulation of multi-unit real estate development marketing and the approval process for strata plans.

Performance Report

FIGURE 10: Disclosure Statements and Amendments



Under the *Real Estate Services Act*, the Real Estate Council of British Columbia regulates all licensed real estate professionals in the province. The Superintendent's staff investigate unlicensed real estate activity. During the year we maintained our working relationship with the Council.

FICOM staff responded to 46 enquiries and complaints about unlicensed real estate activity. Occasionally, serious concern for the public interest arises as a result of unlicensed activity, and this year we issued five orders under the *Real Estate Services Act*.

As a result of the new licensing regime for strata managers, which is handled by the Real Estate Council, we have received many inquiries and complaints about unlicensed strata managers, and this has increased our workload.

With FICOM's shift over the past several years to a risk-based approach, we increased our scrutiny of higher risk types of developments which included co-operatives, time shares and foreign lands.

As a result of enhanced enforcement powers in the *Real Estate Development Marketing Act*, we issued four cease-marketing orders and two consent orders.

The four real estate developers to whom we issued cease-marketing orders are required to make a satisfactory disclosure filing before they market again. One developer was found to be marketing without a disclosure statement and received a first-time fine of \$25,000—the maximum fine for an individual under the *Real Estate Development Marketing Act*.



We processed 729 disclosure statements, 746 amendments, and 505 rental disclosure statements.

Inadequate disclosure remained one of our biggest challenges in 2006/07. As we reviewed Disclosure Statements filed by multi-unit real estate developers, we scanned development advertisements against the number of disclosure statements filed. FICOM's policy is to require additional disclosure and contractual restrictions for marketing prior to obtaining financing and building permits.

In-house staff training continued throughout the year and staff participated in conferences and seminars on real estate development issues.

Deterring Non-Compliance through Investigative Services

The Investigative Services Department supported all five of FICOM's core business areas by helping to detect when a financial institution was not complying with regulatory requirements or breaking the law.



Many complaints came to us from FICOM's Contact Centre. We reviewed each complaint for possible regulatory and/or criminal breaches and, if an investigation was necessary, opened a complaint file and investigated the institution ourselves (see Table 8). Final reports on each of the investigations then went to one of our two full-time lawyers. The Contact Centre kept a database of all such cases during the year.

In one mortgage broker case a complaint was received that company officials were submitting false documents to lenders. Investigative staff executed criminal search warrants and, as a result, over 900 mortgage files were seized. As a result of the investigation, a hearing was held which resulted in the principal of the company receiving a \$50,000 administrative penalty and \$60,000 in costs and his ability to obtain licensing being refused for a 10 year period. In addition the individual was charged with various counts of fraud and was subsequently convicted and sentenced to jail for one year.

Some 45%–50% of the complaints we received in 2006/07 related to the mortgage broker industry, and the number of real estate investigations rose from 74 last year to 92 this year. As a result of the concern regarding mortgage and real estate fraud, presentations to various groups including law enforcement and industry professionals were conducted during the year in order to bring this issue to their attention.

Department staff attended presentations about mortgage fraud. Training will continue throughout the upcoming year. We gave training seminars to other staff during the year on, among other things, mortgage fraud.

Our biggest challenge this year was the ability to attract and retain qualified investigative staff.

Under goal 6, the investigative activities of FICOM deter non-compliance with statutes and criminal activities related to

financial services in British Columbia.

TABLE 8: Investigations

| Activity | 2004/05 | 2005/06 | 2006/07 |
|---|---------|---------|---------|
| Files Open at the Beginning of the Fiscal Year | 108 | 102 | 72 |
| New Files Opened in the Year With Investigations Initiated | 213 | 210 | 207 |
| Real Estate Investigations—Initiated | 65 | 74 | 92 |
| Insurance Investigations—Initiated | 33 | 27 | 23 |
| Mortgage Broker Investigations—Initiated | 95 | 74 | 60 |
| Credit Union Investigations—Initiated | 7 | 22 | 20 |
| Trust Company Investigations—Initiated | 1 | 6 | 6 |
| Pensions Investigations—Initiated | 7 | 4 | 6 |
| Miscellaneous Investigations—Initiated | 5 | 3 | 0 |
| Files Closed | 222 | 238 | 201 |
| Real Estate Investigations—Concluded | 75 | 72 | 82 |
| Insurance Investigations—Concluded | 39 | 37 | 23 |
| Mortgage Broker Investigations—Concluded | 85 | 91 | 63 |
| Credit Union Investigations—Concluded | 11 | 16 | 23 |
| Trust Company Investigations—Concluded | 1 | 5 | 6 |
| Pensions Investigations—Concluded | 3 | 7 | 4 |
| Miscellaneous Investigations—Concluded | 8 | 3 | 0 |
| Files Open at the End of the Fiscal Year | 100 | 72 | 80 |
| Search Warrants Executed | 33 | 21* | 4** |
| Financial Institutions Act Related Orders Executed | 19 | 26 | 13 |
| Pensions Benefits Standards Act Related Orders Executed | 0 | 0 | 0 |
| Mortgage Brokers Act Related Orders Executed | 39 | 52 | 63 |
| Real Estate Services Act Related Orders Executed | 19 | 4 | 8 |
| Real Estate Development Marketing Act Related Orders Executed | Nil | Nil | 9 |

*Of the 21 orders, 5 were search orders, and 16 were production orders.

**Of the 4 orders, 1 was a search order, and 3 were production orders.

Administering Our Services Efficiently

FICOM is committed to operating as efficiently as possible. Our Administrative Services and Operational Services Departments were busy this year providing services to all five regulatory areas within the Commission.

We published a plan that outlines a risk management program for FICOM (*Service Plan: Fiscal Year 2007/2008–Fiscal Year 2009/2010*) and a report of our previous year's performance (*Financial Institutions Commission: Annual Report 2005/2006*). Both of these documents are important in making us transparent and accountable to our stakeholders and members of the public.

These documents are available on the FICOM website: www.fic.gov.bc.ca. Please visit the site to read the FICOM service plans and annual report, and a wide variety of information regarding financial regulation in BC.

The Administrative Services Department maintains the website with up-to-date, relevant information. The site contains, among other things, an overview of each department in addition to forms; information bulletins and guidelines; FAQs; fees; listings of authorized financial institutions, pension plans, and mortgage brokers; filing information; consumer alerts; latest news as well as enforcement activity taken by FICOM.

FICOM continues to offer credit card payment options to its registrants for all of its services. Further information is available on our website at www.fic.gov.bc.ca

Each department within FICOM must keep many of its files for seven to ten years under the *Document Disposal Act*. These files accumulate quickly, and efficient file storage is a prime initiative for the Records group, said Nick Miller, Executive Director of Administrative Services. Our Records Department created a new classification schedule for all FICOM records. FICOM's files have now been centralized and are easier to maintain, retrieve and refile.

FICOM's Systems group worked with staff from the Pensions department to design the Pensions Information Management System (PIMS), a two-year, in-house project, which became operational this year. It conforms to Statistics Canada's standards and makes more information available to Pensions staff. "It's been the most significant undertaking to date," said Mr. Miller. Future plans include updates to the Insurance Filing System and the Enquiry and Complaint Tracking (ENTRAK) database in addition to numerous other departmental databases.

The immediate challenge to the Systems group remains the transition towards risk-based processes and the technical challenges presented in developing new databases and in-house systems.

The Pensions Information Management System (PIMS)

"has been the most significant undertaking to date."

– Nick Miller, Executive Director, Administrative



Our Contact Centre staff continue to increase their knowledge and grow in their role of responding to incoming enquiries and complaints. The Centre now resolves many of these generic enquiries immediately over the phone. The more complex calls are critical ones that must be logged in ENTRAK and referred to the appropriate department for further resolution. The ENTRAK logs provide accurate departmental activity reports and are being developed to provide valuable statistical information.

The Systems group now conducts monthly staff training sessions—a new initiative in the past year designed to combat the challenge of frequently changing and evolving office software applications and programs. One of the members of the Systems group is a certified Microsoft trainer and is available through the help desk for everyday problems and to assist staff with special projects. The in-house training provides staff with monthly refreshers on software updates as well as tips and reminders that make daily work more efficient and effective.

Goal 7 is that FICOM is
administratively effective
and efficient.

FICOM's Financial Report

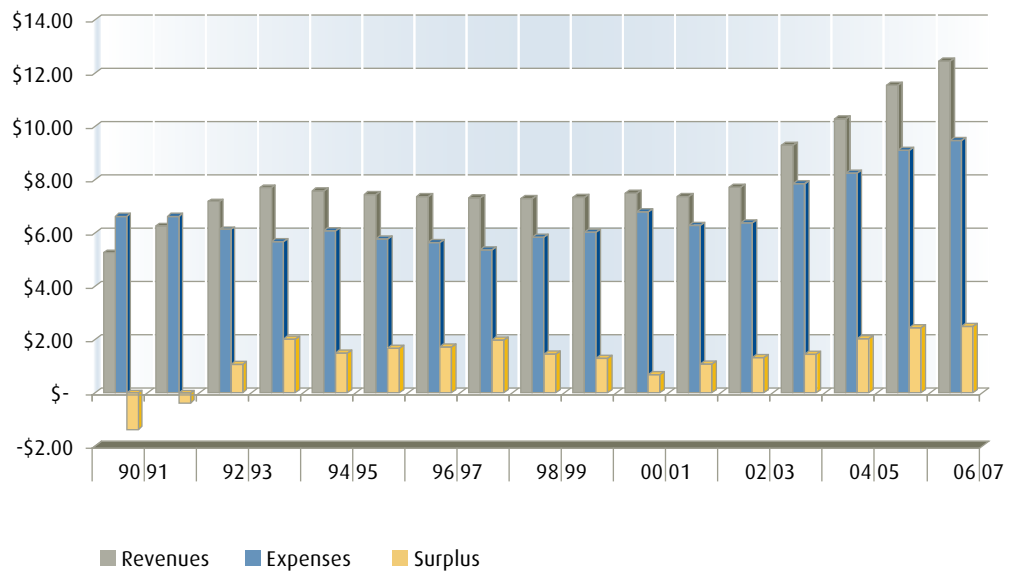
As required by the Ministry of Finance, FICOM's expenditures are fully recovered from fees and assessments. Our funding is provided in the provincial government estimates (in the Budget) for the Ministry of Finance. A nominal net expense of \$1,000 is authorized.

In 2006/07, FICOM's gross actual expenditures were \$9,476,310. Approximately 73% of the expenditures were for staff and professional services.

Actual recoveries were \$12,465,731 in this fiscal year. These consisted of: annual licensing fees and assessments; expenditures incurred on behalf of CUDIC for credit union deposit insurance, supervision, and stabilization (\$1,883,107); and other expenditure recoveries (\$174,533).

In total, FICOM contributed a surplus of \$2,989,421 during 2006/07. These monies offset government overheads that were not fully accounted for in our budget (see Figure 9).

FIGURE 9: FICOM Revenues and Expenses 1990–2007





Report on the Credit Union Deposit Insurance Corporation of British Columbia



Report on the Credit Union Deposit Insurance Corporation of British Columbia

Who We Are

CUDIC BOARD OF DIRECTORS

Chair J. Stewart Cunningham

Directors Tamara Vrooman (*ex officio*)
Mark R. Daniels
John Dawson
William G. Hopkins
Vickie McDonnell
Janet Pau

Officer W. Alan Clark



What We Do

The Credit Union Deposit Insurance Corporation (CUDIC) of British Columbia is a government corporation that maintains and invests a fund in support of a guarantee of members' deposits with provincial credit unions—all credit unions in the province have deposit insurance coverage with CUDIC.

Our mandate is to guarantee that money on deposit and in non-equity shares is repaid, up to limits prescribed by the *Financial Institutions Act*. If a credit union fails and is unable to pay the money it has either on deposit or in non-equity shares, CUDIC repays that amount, to a maximum of \$100,000 for each separate deposit.

Although FICOM and CUDIC are separate entities, Commission staff administer CUDIC's day to day operations.

As of March 31, 2007, the BC deposit insurance fund was worth \$260 million including \$20 million held by Stabilization Central Credit Union.

For more information about deposit insurance coverage and CUDIC, please visit www.fic.gov.bc.ca and click on the "CUDIC" button.

Performance Report

CUDIC's activities were streamlined within FICOM last year to more efficiently oversee the investment of the deposit insurance fund.

We have updated many procedures. We amalgamated CUDIC's records and eliminated unnecessary duplication.

We also revised CUDIC's brochure, *Your Guide to Credit Union Deposit Insurance*, something we had wanted to do for many years. The brochure now clarifies previously ambiguous points, thereby reducing the number of telephone queries we receive.

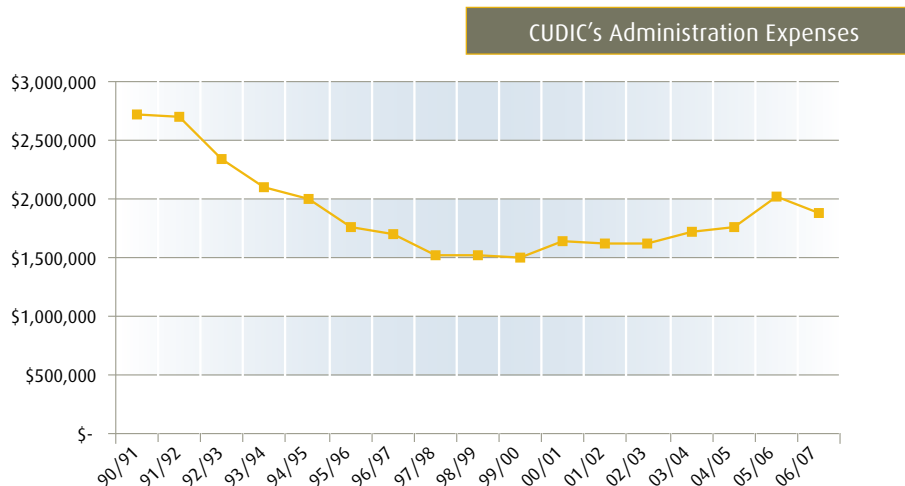
We are pleased to report the launch of three new initiatives in fiscal 2006/07.

First, we are reviewing the manner in which the deposit insurance premiums are assessed. Credit unions range from low risk to high risk, which is not reflected in the current assessment methodology. Until now everyone has paid the same rate. In the coming year, we will take a look at the viability of variable deposit insurance

premiums that would match the risk of a credit union's operations to the amount of money it paid for deposit insurance. We are researching ways to install variable assessments and hope to have a new system in place within 12-24 months.

Second, we are developing contingency plans for deposit insurance payouts. The last such payout occurred in the late 1980s, so the skills acquired at that time are no longer available. We are investigating opportunities to partner with other Canadian deposit insurers to develop required tools and expertise.

Third, we revised the oversight of CUDIC's investment performance. We studied the fund manager's investment of CUDIC's \$240 million deposit insurance fund. The treasury procedures ensure that risk tolerances mandated by recent policy amendments, are implemented and suitably controlled.





Credit Union Deposit Insurance Corporation of British Columbia

Financial Statements

March 31, 2007

July 19, 2007

Auditors' Report

**To the Board of Directors of
Credit Union Deposit Insurance Corporation of British Columbia**

We have audited the balance sheet of **Credit Union Deposit Insurance Corporation of British Columbia** as at March 31, 2007 and the statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the corporation as at March 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Credit Union Deposit Insurance Corporation of British Columbia

Balance Sheet

As at March 31, 2007

| | 2007 \$ | 2006 \$ |
|--|--------------------|--------------------|
| Assets | | |
| Cash | 2,114 | 7,530 |
| Capital assets | 15,455 | 15,455 |
| Investments - at cost (note 3) | <u>239,507,535</u> | <u>213,713,004</u> |
| | <u>239,525,104</u> | <u>213,735,989</u> |
| Liabilities and Retained Earnings | | |
| Trade settlements payable | - | 148,994 |
| Accounts payable and accrued liabilities | - | 137,858 |
| Due to FICOM (note 6) | 196,020 | 430,546 |
| Income taxes payable | <u>195,053</u> | <u>131,754</u> |
| | 391,073 | 849,152 |
| Retained earnings (note 5) | <u>239,134,031</u> | <u>212,886,837</u> |
| | <u>239,525,104</u> | <u>213,735,989</u> |

Approved by the Board of Directors


Director


Director

Credit Union Deposit Insurance Corporation of British Columbia

Statement of Earnings and Retained Earnings

For the year ended March 31, 2007

| | 2007 | 2006 |
|--|--------------------|--------------------|
| | \$ | \$ |
| Revenue | | |
| Investments | | |
| Interest and dividends | 9,460,904 | 6,814,026 |
| Gain on sale of investments | 3,574,636 | 3,214,831 |
| Assessments (note 5) | <u>16,218,247</u> | <u>83,131,609</u> |
| | <u>29,253,787</u> | <u>93,160,466</u> |
| | | |
| Expenses | | |
| Administration (note 6) (schedule) | 1,883,867 | 2,023,302 |
| Investment management fees | <u>206,351</u> | <u>98,425</u> |
| | <u>2,090,218</u> | <u>2,121,727</u> |
| | | |
| Earnings before income taxes | 27,163,569 | 91,038,739 |
| | | |
| Provision for income taxes (note 4) | <u>916,375</u> | <u>737,176</u> |
| | | |
| Net earnings for the year | 26,247,194 | 90,301,563 |
| | | |
| Retained earnings - Beginning of year | <u>212,886,837</u> | <u>122,585,274</u> |
| | | |
| Retained earnings - End of year | <u>239,134,031</u> | <u>212,886,837</u> |

Credit Union Deposit Insurance Corporation of British Columbia

Statement of Cash Flows

For the year ended March 31, 2007

| | 2007 | 2006 |
|--|---------------------|---------------------|
| | \$ | \$ |
| Cash flows from operating activities | | |
| Net earnings for the year | 26,247,194 | 90,301,563 |
| Items not affecting cash | | |
| Gain on sale of investments | (3,574,636) | (3,214,831) |
| Amortization of discount (premium) on purchase of fixed income investments | <u>826,662</u> | <u>647,525</u> |
| | 23,499,220 | 87,734,257 |
| Changes in non-cash working capital items | | |
| Trade settlements payable | (148,994) | 148,994 |
| Accounts payable and accrued liabilities | (137,858) | 11,908 |
| Due to FICOM | (234,526) | 145,262 |
| Income taxes payable | <u>63,299</u> | <u>179,796</u> |
| | <u>23,041,141</u> | <u>88,220,217</u> |
| Cash flows from investing activities | | |
| Purchase of investments | (87,791,200) | (252,013,190) |
| Proceeds from sale of investments | <u>64,744,643</u> | <u>163,798,436</u> |
| | <u>(23,046,557)</u> | <u>(88,214,754)</u> |
| (Decrease) increase in cash | (5,416) | 5,463 |
| Cash - Beginning of year | <u>7,530</u> | <u>2,067</u> |
| Cash - End of year | <u>2,114</u> | <u>7,530</u> |
| Supplemental cash flow information | | |
| Income taxes paid | <u>853,076</u> | <u>557,380</u> |

Credit Union Deposit Insurance Corporation of British Columbia

Notes to Financial Statements

March 31, 2007

1 Governing legislation and operations

The Credit Union Deposit Insurance Corporation of British Columbia (CUDIC) is a statutory corporation continued under the *Financial Institutions Act* (FIA) and administered by the Financial Institutions Commission (FICOM) of the Ministry of Finance of the Province of British Columbia. The mandate of CUDIC is to guarantee deposits and non-equity shares of depositors of British Columbia credit unions up to the limits prescribed by the FIA. To meet this mandate, CUDIC undertakes functions set out in the FIA and maintains the deposit insurance fund. CUDIC may assess credit unions and/or issue debentures to them to support the deposit insurance fund.

The amount, timing and form of deposit insurance payments or financial assistance that may be required for credit unions is dependent on future events and outcomes. Outcomes that may require assistance are rehabilitation, amalgamation or liquidation of credit unions.

2 Summary of significant accounting policies

Basis of presentation

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

Investments

CUDIC's investment policy permits investment in both fixed income securities and equities. Investment assets are either managed on a segregated basis or held in pooled funds.

Segregated fixed income securities are reported at their amortized cost. Premiums and discounts arising at the time of purchase of investments are amortized over the period to maturity. Pooled fund investments are reported at cost, whereby the carrying value is reduced for any impairment in value considered other than temporary.

Investment income

Income from investments is recorded on an accrual basis and dividends from the pooled fund investments are recognized on the ex-dividend date. Gains and losses from investment transactions are calculated on an average cost basis and recorded when realized.

Capital assets

CUDIC's collection of fine art was independently valued in 2005. There is no amortization in respect of these assets. This valuation will be reviewed on a periodic basis.

Credit Union Deposit Insurance Corporation of British Columbia

Notes to Financial Statements

March 31, 2007

Assessments

CUDIC has established a target fund size in relation to the total of British Columbia credit union system deposits, based upon actuarial advice and an assessment of deposit failure risk (note 5). Assessments are recognized as revenue when due.

Provision for credit union assistance

CUDIC may provide assistance to credit unions in respect of deposit insurance. Specific provisions are established for financial assistance provided to a credit union and deposit insurance claims for a credit union in financial difficulty. These provisions are recorded when it is determined that assistance is likely required and the amount can be reasonably estimated. No payments or accruals were made in relation to credit union assistance in the current or prior year.

Financial instruments

The fair values of financial instruments other than investments, which include cash, income taxes payable, trade settlements payable, accounts payable and accrued liabilities, and amounts due to FICOM, approximate their carrying values due to their short-term nature.

Investments are exposed to credit risk and price risk. Price risk comprises currency risk, interest rate risk and market risk.

Credit risk

Credit risk relates to the possibility that a loss may occur from the failure of another party to comply with the terms of a contract. The investment policy established by CUDIC limits credit risk by limiting the maximum exposure to one single issuer and by investing only in securities from counterparties with a minimum rating of at least "BBB" as defined by Moody's, Standard & Poors or Dominion Bond Rating Service.

Currency risk

Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. The total amount of investments exposed to currency risk amounts to \$29.2 million (investment in U.S. equity funds and international equity funds).

Interest rate risk

Interest rate risk relates to the possibility that fixed income investments will change in value due to future fluctuations in market interest rates. As fixed income investments are carried at amortized cost, the carrying value of investments has limited exposure to interest rate risk.

Credit Union Deposit Insurance Corporation of British Columbia

Notes to Financial Statements

March 31, 2007

Market risk

Market risk relates to the possibility that the equity investments will change in value due to future fluctuations in market prices. As the equity investments are held at cost, those investments are exposed to market risk to the extent that a decrease in market value is not considered temporary.

Income taxes

Income taxes are calculated using the liability method of accounting. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax liabilities or assets. Future income tax liabilities or assets, when applicable, are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying disclosures. Actual results may differ from those estimates.

3 Investments

| | Effective yields % | Less than one year \$ | 1 to 5 years \$ | Over 5 years \$ | Total cost | |
|--|--------------------------|-----------------------------|--------------------|--------------------|--------------------|--------------------|
| | | | | | 2007 \$ | 2006 \$ |
| Bonds – direct | | | | | | |
| Canadian | 4.1 | 2,468,115 | 41,666,317 | 42,955,170 | 87,089,602 | 75,124,407 |
| Provincial | 4.4 | 505,917 | 8,400,881 | 32,907,793 | 41,814,591 | 35,992,906 |
| Municipal | 4.4 | 200,000 | 1,121,200 | 5,323,025 | 6,644,225 | 6,672,044 |
| Corporate | 5.2 | - | - | 336,509 | 336,509 | 342,144 |
| | | <u>3,174,302</u> | <u>51,188,398</u> | <u>81,522,497</u> | <u>135,884,927</u> | <u>118,131,501</u> |
| Pooled funds | | | | | | |
| Money market | | | | | 1,165,720 | 138,050 |
| Government bond | | | | | 5,117,963 | 5,349,755 |
| Corporate bond | | | | | 49,624,258 | 44,769,755 |
| Canadian equity | | | | | 16,710,487 | 15,287,658 |
| U.S. equity | | | | | 14,256,933 | 14,118,733 |
| International equity | | | | | 14,917,175 | 14,195,795 |
| | | | | | <u>101,792,536</u> | <u>93,859,746</u> |
| Accrued interest | | | | | <u>1,830,072</u> | <u>1,721,757</u> |
| Total investments – cost | | | | | <u>239,507,535</u> | <u>213,713,004</u> |
| Total investments – fair value (include accrued interest) | | | | | <u>248,763,599</u> | <u>219,623,188</u> |

Credit Union Deposit Insurance Corporation of British Columbia

Notes to Financial Statements

March 31, 2007

4 Income taxes

Under the *Income Tax Act*, CUDIC pays income taxes on its taxable income at the statutory rate prescribed for deposit insurance corporations. To maintain status as a deposit insurance corporation under the *Income Tax Act*, 50% of the cost of CUDIC's investment property must be held in eligible securities, defined as bonds or other fixed income securities issued by the federal or a Canadian provincial or municipal government, or guaranteed by the Canadian government.

Income for tax purposes excludes assessments made against credit unions. Also, no deduction may be made against income for tax purposes for financial assistance given to or paid on behalf of credit unions.

| | 2007 | 2006 |
|---|----------------|----------------|
| | \$ | \$ |
| Income taxes otherwise payable based on reported net earnings | 2,624,082 | 9,012,096 |
| Adjustments for effect of: | | |
| Assessments | (1,618,581) | (8,296,535) |
| Miscellaneous differences | (89,126) | 21,615 |
| | <u>916,375</u> | <u>737,176</u> |
| Provision for income taxes | | |

5 Depositor protection

The deposit insurance fund is comprised of CUDIC's retained earnings and a \$20 million letter of credit issued by Credit Union Central of British Columbia (refer to note 7). These combine to form an Ex Ante fund for potential deposit insurance claims.

The target deposit insurance fund size is 84 basis points of total British Columbia credit union system deposits, with a targeted operating corridor of 75 to 84 basis points, based upon actuarial advice and an assessment of deposit failure risk.

In 2007, CUDIC assessed British Columbia credit unions \$16,218,247 (2006 - \$83,131,609), to augment the deposit insurance fund.

At March 31, 2007, CUDIC's retained earnings represent 70.0 basis points of credit union deposits at December 31, 2006. Combined with the \$20 million letter of credit, the deposit insurance fund amounts to 75.8 basis points.

Credit Union Deposit Insurance Corporation of British Columbia

Notes to Financial Statements

March 31, 2007

6 Related party transactions

As CUDIC is administered by FICOM, FICOM's administrative expenses relating to CUDIC's mandate are charged back to CUDIC at cost. The allocation of a percentage of salaries to CUDIC is calculated based on the activities performed by FICOM staff on tasks pertinent to the mandate of CUDIC. Other expenses, including occupancy costs, are allocated to CUDIC according to CUDIC's proportionate share of activities. These transactions are conducted in the normal course of business at amounts established and agreed to by both parties.

In the current year, total expenses charged to CUDIC by FICOM amounted to \$1,863,088 (2006 - \$1,982,502). The balance remaining payable to FICOM at March 31, 2007 was \$196,020 (2006 - \$430,546).

7 Credit facilities

CUDIC has available a \$250,000 unsecured line of credit for operating purposes with Credit Union Central of British Columbia, which bears interest at the prime rate.

In addition, CUDIC is the beneficiary of an irrevocable and unrestricted letter of credit for \$20 million issued by Credit Union Central of British Columbia on behalf of Stabilization Central Credit Union. One letter of credit expiring June 13, 2007 was in place at fiscal year-end. A letter of credit expiring June 13, 2008 replaced that agreement on June 13, 2007.

8 Comparative figures

The March 31, 2006 fair value presentation of investments in note 3 had excluded accrued interest in the statement of total fair value. This amount has been restated to compare with the current year's presentation.

9 Future accounting standards

In 2005, the Canadian Institute of Chartered Accountants (CICA) issued new accounting standards comprising handbook sections *3855 Financial Instruments - Recognition and Measurement*, *3865 Hedges*, and *1530 Comprehensive Income*, which will become effective for CUDIC beginning April 1, 2007.

The standards require that all financial assets be classified as trading, available for sale, held to maturity or loans and receivables. In addition, the standards required that all financial assets, including derivatives, be measured at fair value on the balance sheet with exception of loans, receivables, and investments classified as held-to-maturity, which will be measured at amortized cost. Changes in the fair value of available-for-sale securities will be reported within a new statement of other comprehensive income (OCI), until the financial asset is disposed of or becomes impaired.

Credit Union Deposit Insurance Corporation of British Columbia

Notes to Financial Statements

March 31, 2007

Similarly, the standards require that all financial liabilities be measured at fair value on the balance sheet when they are held for trading or are derivatives. Other financial liabilities should be measured at amortized cost.

Accumulated OCI will be included on the balance sheet as a separate component of retained earnings, and will include, on a net of tax basis, net unrealized gains and losses on available-for-sale securities.

CUDIC has classified its investments as available-for-sale effective April 1, 2007. The difference between the carrying value and the fair value as of April 1, 2007 will be recorded in accumulated OCI, net of tax.

Credit Union Deposit Insurance Corporation of British Columbia

Schedule of Administration Expenses

For the year ended March 31, 2007

| | 2007 | 2006 |
|-------------------------|-------------|-------------|
| | \$ | \$ |
| Salaries and benefits | 1,248,170 | 1,349,014 |
| Building occupancy | 217,890 | 203,409 |
| Professional services | 121,579 | 174,101 |
| Other | 100,833 | 93,002 |
| Information services | 81,254 | 68,470 |
| Furniture and equipment | 60,580 | 78,473 |
| Travel | 46,401 | 34,035 |
| Directors' expenses | 7,160 | 22,798 |
| | <hr/> | <hr/> |
| | 1,883,867 | 2,023,302 |

Contact Information

Complaints and Enquiries

FOR GENERAL QUERIES RELATED TO THE FINANCIAL SERVICES SECTOR:

Financial Institutions Commission

Website: www.fic.gov.bc.ca

Contact Centre: 604 953-5200

Email enquiries: FICOM@ficombc.ca

Mailing Address:

Suite 1200 – 13450 102nd Avenue
Surrey, BC V3T 5X3

FOR ENQUIRIES AND COMPLAINTS REGARDING A LICENSED REAL ESTATE AGENT, SALESPERSON OR PROPERTY MANAGER:

Real Estate Council of British Columbia

Website: www.recbc.ca

Telephone: 604 683-9664

Toll Free in BC: 1 877 683-9664

Fax: 604 683-9017

Mailing Address:

Suite 900 – 750 West Pender Street
Vancouver, BC V6C 2T8

FOR ENQUIRIES AND COMPLAINTS REGARDING A LICENSED INSURANCE AGENT, ADJUSTER OR SALESPERSON:

Insurance Council of British Columbia

Website: www.insurancecouncilofbc.com

Telephone: 604 688-0321

Toll Free in BC: 1 877 688-0321

Fax: 604 662-7767

Mailing Address:

Suite 300 – 1040 West Georgia Street
PO Box 7
Vancouver, BC V6E 4H1

FOR ENQUIRIES AND COMPLAINTS REGARDING CHARTERED BANKS:

Office of the Superintendent of Financial Institutions (Canada)

Website: www.osfi-bsif.gc.ca

Telephone: 604 666-5335

Fax: 604 666-6717

Mailing Address:

Suite 305 – 1095 West Pender Street
PO Box 11
Vancouver, BC V6E 2M6

FOR ENQUIRIES AND COMPLAINTS REGARDING THE SECURITIES INDUSTRY:

British Columbia Securities Commission

Website: www.bcsc.bc.ca

Telephone: 604 899-6500

Toll Free in BC: 1 800 373-6393

Fax: 604 899-6506

Email: inquiries@bcsc.bc.ca

Mailing Address:

PO Box 10142
Pacific Centre
701 West Georgia Street
Vancouver, BC V7Y 1L2

Deposit Insurance and Compensation Plans

FOR QUESTIONS ABOUT DEPOSIT INSURANCE
FOR BANKS AND TRUST COMPANIES IN
BRITISH COLUMBIA:

Canada Deposit Insurance Corporation

Website: www.cdic.ca
Telephone: 613 992-7124
Toll Free: 1 800 461-2342
Fax: 613 996-6095
Email: info@cdic.ca

Mailing Address:

17th Floor – 50 O’Connor Street
PO Box 2340, Station D
Ottawa, ON K1P 5W5

FOR QUESTIONS ABOUT DEPOSIT INSURANCE
FOR CREDIT UNIONS IN BRITISH COLUMBIA:

Credit Union Deposit Insurance Corporation of British Columbia

Website: www.fic.gov.bc.ca
Telephone (Enquiries): 604 953-5200
Fax: 604 953-5301

Mailing Address:

Suite 1200 – 13450 102nd Avenue
Surrey, BC V3T 5X3

MOST PROPERTY AND CASUALTY INSURANCE
COMPANIES IN CANADA ARE REQUIRED TO
BE MEMBERS OF THE INDUSTRY INSURANCE
COMPENSATION PROGRAM FOR INSOLVENCIES.

Property and Casualty Insurance Compensation Corporation

Website: www.pacicc.ca
Telephone (Enquiries): 416 364-8677
Toll Free: 1 888 564-9199
Fax: 416 364-5889
Email: info@pacicc.ca

Mailing Address:

Suite 210 – 20 Richmond Street East
Toronto, ON M5C 2R9

MOST BRITISH COLUMBIA INSURERS THAT SELL
LIFE, ACCIDENT, AND SICKNESS INSURANCE TO
THE PUBLIC MUST BE MEMBERS OF:

Canadian Life and Health Insurance Compensation Corporation

Website: www.assuris.ca
Telephone (Enquiries): 416 777-2344
Toll Free: 1 800 268-8099
Fax: 416 955-9688
Email: info@assuris.ca

Mailing Address:

Suite 1600 – 1 Queen Street East
Toronto, ON M5C 2X9

Contact Information

Financial Institutions Commission

INCLUDING

- The Superintendent of Financial Institutions
- The Superintendent of Pensions
- The Superintendent of Real Estate
- The Registrar of Mortgage Brokers
- Credit Union Deposit Insurance Corporation of British Columbia

Website: www.fic.gov.bc.ca

Telephone: 604 953-5300

Fax: 604 953-5301

Email: FICOM@ficombc.ca

Mailing Address:

Suite 1200 – 13450 102nd Avenue

Surrey, BC V3T 5X3

Financial Services Tribunal

FICOM houses the Financial Services Tribunal (FST). Created to partially replace the Commercial Appeals Commission, the FST hears appeals from individuals and institutions who want to contest enforcement decisions made by the Insurance Council of British Columbia, the Real Estate Council of British Columbia, the Superintendent of Real Estate, the Superintendent of Pensions, the Registrar of Mortgage Brokers and the Superintendent of Financial Institutions.

For further information, please contact the Deputy Registrar at 604 953-5300, or visit the website at www.fic.gov.bc.ca/fst.



Financial Institutions Commission

visit our website

www.fic.gov.bc.ca